

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 EUR-12 ISO-00 IO-13 AGRE-00 CIAE-00

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2423

INFO AMEMBASSY LONDON

AMEMBASSY BOGOTA

AMEMBASSY MEXICO

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 5227

E.O. 11652: N/A

TAGS: EAGR, ETRD, BR

SUBJ: BRAZILIAN COFFEE SITUATION

REF: BRASILIA 5136

1. JUNE 20 GAZETA MERCANTIL, SAO PAULO BUSINESS AND FINANCIAL DAILY, PUBLISHED FRONT-PAGE ARTICLE HEADLINED QUOTE NO CONCERN ABOUT COFFEE UNQUOTE. THIS ARTICLE INCLUDES JUNE 17 STATEMENT BY ANGELO CALMON DE SA, MINISTER OF INDUSTRY AND COMMERCE, UNDER WHOSE JURISDICTION THE BRAZILIAN COFFEE INSTITUTE (IBC) FALLS. ENGLISH TRANSLATION OF THIS ARTICLE FOLLOWS: QUOTE THE BRAZILIAN GOVERNMENT IS NOT CONCERNED ABOUT THE SHARP DECLINE OF COFFEE PRICES AND BELIEVES THESE PRICES WILL RECOVER WITHIN TWO MONTHS. COLOMBIA'S DECISION TO REDUCE COFFEE EXPORT REGISTRATION PRICE, LEADING TO FURTHER DECLINE OF INTERNATIONAL QUOTATIONS, IS CONSIDERED AN ATTEMPT TO EXPORT MORE COFFEE. THE DIFFERENCE BETWEEN THE TWO COUNTRIES, LIMITED OFFICIAL USE

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IS THAT BRAZIL HAS, UNTIL NOW, EXPORTED A SUBSTANTIAL VOLUME OF COFFEE WHILE COLOMBIA HAS NOT REACHED ITS EXPORT OBJECTIVE. ALTHOUGH BRAZIL'S MINIMUM EXPORT PRICE IS ABOVE LAST WEEK'S MARKET PRICE LEVEL, THE GOVERNMENT IS NOT THINKING ABOUT LOWERING THE CURRENT EXPORT PRICE FLOOR OF US DOLS 3.20 PER POUND. BRAZIL'S STRATEGY WILL BE TO WAIT. BRAZIL WILL NOT SELL COFFEE DURING THE MONTHS OF JULY AND AUGUST. SUCH NON-

SHIPMENT WILL ELIMINATE THE STILL-EXISTING STOCKS IN THE INTERNATIONAL MARKET. THIS WILL LEAD TO PRICE RISES. UNQUOTE. (SEE ALSO REFTEL)

2. JUNE 20 PRESS REPORTED THAT IBC PRESIDENT CALAZANS FLEW SUNDAY EVENING TO VISIT IBC AGENCY IN NEW YORK AND WILL BE IN TRIESTE ON JUNE 24. ACCORDING TO PRESS AND TRADE REPORTS BRAZIL INTENDS TO BUY ANY SUBSTANTIAL VOLUME OF COFFEE AVAILABLE ON THE WORLD MARKET.

3. JUNE 21 GAZETA MERCANTIL CITED FOLLOWING REASONS FOR RECENT FIRMNESS IN COFFEE PRICES: (1) PERSISTENT RUMORS THAT IBC AND/OR INTERBRAS WILL BUY COFFEE, AND (2) NEWS REPORTS (UNFOUNDED AS OF PRESENT) OF COLD WEATHER IN BRAZIL.

4. A NEW TWIST HAS BEEN ADDED TO STORIES THAT BRAZIL WILL BUY COFFEE IN THE WORLD MARKET: THE JUNE 22 JORNAL DE BRASILIA QUOTED FINANCE MINISTER SIMONSEN AS CONFIRMING THAT INTERBRAS WOULD BUY COFFEE IN WORLD MARKETS BECAUSE UNDER CURRENT MARKET CONDITIONS THIS WOULD BE A PROFITABLE OPERATION. INTERBRAS IS CONVINCED THAT CURRENT RELATIVELY DEPRESSED COFFEE PRICES ARE TRANSITORY BECAUSE "THE SHORTAGE OF COFFEE IS REAL," AND EXPECTS TO MAKE MONEY BY BUYING NOW AND SELLING LATER AFTER PRICES RISE. JUNE 23 PRESS REPORTS THAT TWO SENIOR INTERBRAS OFFICIALS WENT TO NEW YORK JUNE 21 TO LIMITED OFFICIAL USE

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MEET WITH IBC PRESIDENT CALAZANS REGARDING POSSIBLE COFFEE PURCHASES.

5. COMMENT: THE APPARENT GOB TACTIC IS TO WAIT OUT THE IMPORTERS IN THE BELIEF THAT IMPORTER STOCKS WILL BE EXHAUSTED IN TWO MONTHS. AT THAT TIME IMPORTERS WOULD BE FORCED TO RETURN TO THE MARKET AND PRICES WOULD BEGIN TO RISE AGAIN. THIS POLICY MEANS ACCEPTANCE OF REDUCED EXPORT EARNINGS FOR JULY AND AUGUST (WELL BELOW THE ONCE HOPED-FOR 700-800 MILLION DOLLARS FOR THE TWO MONTHS). THIS SACRIFICE MAY BE MORE APPARENT THAN REAL GIVEN EARLIER OVERBUYING. A SIGNIFICANT FROST DURING THIS PERIOD WOULD, OF COURSE, DRAMATICALLY REVERSE THE DECLINING PRICE TREND.

6. BRAZILIAN COFFEE GROWERS PROBABLY WILL SOON BE PRESSING FOR A NEW (I.E., HIGHER) DOMESTIC SUPPORT PRICE (CURRENT CR 1,250 PER 60 KG BAG) AND IMMEDIATE RELEASE OF NECESSARY CREDIT TO ALLOW THEM TO HOLD THE JUST-HARVESTED 1977/78 COFFEE CROP OFF THE DEPRESSED WORLD MARKET. BOTH COURSES OF ACTION, WHILE CONSISTENT WITH SLOWING EXPORTS FOR THE SHORT TERM, CONFLICT WITH THE CURRENT STRICT POLICY OF TIGHT CREDIT TO CONTROL INFLATION. END COMMENT

7. THIS CABLE PREPARED JOINTLY BY EMBASSY AND CONGEN RIO.
JOHNSON

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